



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

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Release Date: 1/9/09

Date: October 17, 2008

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Contact Person:

Identification Number:

Telephone Number:

Legend:

O =

Date x =

Dear

This letter is in response to your ruling request under sections 501(c)(3) and 170(b)(1)(A)(iii) of the Internal Revenue Code.

FACTS

You are a nonprofit, non-stock public benefit corporation organized under state law. The Internal Revenue Service has determined that you are tax-exempt under section 501(a) of the Code as an organization described in section 501(c)(3), and that you are a hospital described in sections 509(a)(1) and 170(b)(1)(A)(iii).

Your mission and purpose is to provide, directly and with O, accessible medical care to low-income, uninsured individuals and families residing in the county where you are located.

O is a nonprofit, non-stock public benefit corporation described in section 501(c)(3) of the Code, and classified as a hospital described in sections 509(a)(1) and 170(b)(1)(A)(iii). For many years, you and O have jointly operated a network of six free-standing family healthcare clinics (the "Clinics") in medically underserved areas of your community. The Clinics provide free medical care for individuals who have limited financial resources or who are not covered by health plans, insurance or government programs. The Clinics provide preventive, diagnostic and follow-up medical care to residents of low-income areas of the community. The Clinics provide medical care to all patients regardless of their ability to pay. The Clinics are approved Medicaid and Medicare providers.

Effective Date x, you and O entered into a formal partnership agreement (the "Partnership Agreement") under which you and O will continue to jointly operate the Clinics in the same manner as before.

#### RULINGS REQUESTED

1. Your execution of the Partnership Agreement and your activities under the Partnership Agreement do not adversely affect your current status as an organization described in section 501(c)(3) of the Code.
2. Your execution of the Partnership Agreement and your activities under the Partnership Agreement do not adversely affect your current status as a hospital under sections 509(a)(1) and 170(b)(1)(A)(iii) of the Code.

#### APPLICABLE LAW

Section 170(b)(1)(A)(iii) of the Code describes a hospital as an organization "the principal purpose or functions of which are the providing of medical or hospital care or medical education or medical research. . . ."

Section 213(d)(1)(A) of the Code states the term "medical care" includes amounts paid "for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body."

Section 501(c)(3) of the Code describes organizations organized and operated exclusively for various exempt purposes, including charitable, scientific, or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.170A-9(c)(1) of the Income Tax Regulations states:

*An organization . . . is described in section 170(b)(1)(A)(iii) if:*

- (i) It is a hospital, and*
- (ii) Its principal purpose or function is the providing of medical or hospital care or medical education or medical research.*

*. . . A rehabilitation institution, outpatient clinic, or community mental health or drug treatment center may qualify as a "hospital" within the meaning of subdivision (i) of this subparagraph if its principal purpose or function is the providing of hospital or medical care. For purposes of this subdivision, the term "medical care" shall include the treatment of any physical or mental disability or condition, whether on an inpatient or outpatient basis, provided the cost of such treatment is deductible under section 213 by the person treated.*

Section 1.501(c)(3)-1(c)(1) of the regulations states that an organization will be regarded as operated exclusively for exempt purposes only if it engages primarily in activities which accomplish one or more of the exempt purposes specified in section

501(c)(3) of the Code. An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(d)(1)(i) of the regulations states that an organization may be exempt as an organization described in section 501(c)(3) of the Code if it is organized and operated exclusively for one or more of exempt purposes, which include charitable and scientific.

Section 1.501(c)(3)-1(d)(2) of the regulations states that the term "charitable" as used in section 501(c)(3) of the Code includes its generally accepted legal sense. The promotion of health has long been recognized as a charitable purpose. See Restatement (Second) of Trusts §§ 368, 372 (1959); 4A Austin W. Scott and William F. Fratcher, The Law of Trusts §§ 368, 372 (4<sup>th</sup> ed. 1989).

Rev. Rul. 69-545, 1969-2 C.B. 117, describes the standards under which a nonprofit hospital may qualify for recognition of exemption under section 501(c)(3) of the Code. This revenue ruling considered two separate hospitals, only one of which was determined to qualify for exempt status under section 501(c)(3). By weighing all the relevant facts and circumstances, the revenue ruling analyzed whether both the control and use of the hospitals were for the benefit of the public or for the benefit of private interests.

Rev. Rul. 98-15, 1998-1 C.B. 6, concluded in part that the activities of a limited liability company treated as a partnership for federal income tax purpose are considered to be the activities of its partners.

In IHC Health Plans v. Commissioner, T.C. Memo 2001-246, aff'd 325 F.3d 1188 (10<sup>th</sup> Cir. 2003), the court of appeals concluded that a healthcare provider, a health maintenance organization, did not qualify for exemption under section 501(c)(3) of the Code because it did not satisfy the community benefit standard under Rev. Rul. 69-545.

#### RATIONALE

Under the Partnership Agreement, you and Q will continue to jointly operate the Clinics in the same manner as before. Under Rev. Rul. 98-15, supra, for federal income tax purposes, the activities of the partnership between you and Q are considered to be the activities of its partners, you and Q. The partnership's activities, as described above, promote health in a manner that complies with the standards described in Rev. Rul. 69-545, supra, and in IHC Health Plans v. Commissioner, supra. Therefore, the partnership's activities further a charitable purpose within the meaning of section 1.501(c)(3)-1(d)(2) of the regulations. As a partner, you are considered as carrying on these activities. Because you will continue to engage primarily in activities that accomplish a charitable purpose under section 1.501(c)(3)-1(c)(1), you will continue to be operated exclusively for an exempt purpose under section 1.501(c)(3)-1(d)(1). Therefore, your execution of the Partnership Agreement with Q and your activities under the Partnership Agreement do not adversely affect your current status as an organization described in section 501(c)(3) of the Code.

The Clinics will provide patients with "medical care," as described in section 1.170A-9(c)(1) of the regulations, and will operate in the same manner as before. Therefore, as a partner in the partnership, because your principal purpose or function will be providing medical care, you will continue to meet the definition of a "hospital" within the meaning of section 170(b)(1)(A)(iii) of the Code.

#### RULINGS

1. Your execution of the Partnership Agreement and your activities under the Partnership Agreement do not adversely affect your current status as an organization described in section 501(c)(3) of the Code.
2. Your execution of the Partnership Agreement and your activities under the Partnership Agreement do not adversely affect your current status as a hospital under sections 509(a)(1) and 170(b)(1)(A)(iii) of the Code.

This ruling is based on the understanding that there will be no material changes in the facts upon which it is based.

This ruling does not address the applicability of any section of the Code or regulations to the facts submitted other than with respect to the sections described.

This ruling is directed only to the organization that requested it. Section 6110(k)(3) of the Internal Revenue Code provides that it may not be used or cited as precedent.

If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

This ruling will be made available for public inspection under section 6110 of the Code after certain deletions of identifying information are made. For details, see enclosed Notice 437, *Notice of Intention to Disclose*. A copy of this ruling with deletions that we intend to make available for public inspection is attached to Notice 437. If you disagree with our proposed deletions, you should follow the instructions in Notice 437.

If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

In accordance with the Powers of Attorney currently on file with the Internal Revenue Service, we are sending a copy of this letter to your authorized representative.

Sincerely,

Stephen Grodnitzky  
Manager  
Exempt Organizations  
Technical Group 1

Enclosure  
Notice 437